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Regulators Shift Analysts' Focus Back to Banks

By JED HOROWITZ

NEW YORK — By holding an unusual meeting with bank analysts and accountants last week, the Office of the Comptroller of the Currency managed to shift most of the focus on problem real estate portfolios from its examiners to commercial banks themselves.

Bankers and analysts had been criticizing the Comptroller for using heavy-handed methods to force loan writeoffs. But analysts came away from the meeting generally convinced that the extent of credit problems justified the regulators' tactics.

ANALYSIS: *Follow-up on the news*

The meetings also dashed hopes of bankers and investors that regulators would ease their examination standards, despite complaints that their methods are forcing banks to cut off credit to corporate America.

"The meeting dispelled any perceptions that the OCC is about to back off from its policies regarding stringent writedowns on real estate loans in problem markets," First Boston analyst Eric I. Hemel told salesmen on Thursday. "Having learned an important lesson in the Southwest on the need for preventive action, the OCC is trying to leverage that experience in other regions."

The analysts' reaction to the meeting helped spur a stock selloff. They left with the feeling that no national bank with significant real estate exposure would be immune from scrutiny and that those already visited will be reviewed.

The examiners are "going to keep coming back," said one attendee, adding that there were hints as well that leveraged buyout and consumer portfolios would be scrutinized in the future.

"It's basically not going to be just an East Coast review," said Merrill Lynch analyst Judah Kraushaar, referring to examinations in progress in New England and the Southeast. "It will be the unusual [national] bank that escapes without any kind of reclassification at all, and it will get worse for those in markets with poor fundamentals."

Blame Put on Weak Markets

The Comptroller apparently succeeded in convincing analysts that poor commercial real-estate markets – not more stringent regulatory standards – have led to the increased pace of

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INSIDE NEWS

FINANCE

WELLS FARGO is preparing to join the securitization bandwagon. Based on an SEC filing, the San Francisco-based bank is considering an issue backed by credit card receivables. *Page 16*

CONSUMER

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VISA U.S.A. unveiled a processing service designed to ease credit card transactions at hotels and motels. *Page 3*

INTERNATIONAL

CITICORP chairman John Reed urged the Japanese to support Brasilia's plan for economic reform. *Page 10*

WASHINGTON

REP. JIM LEACH, R-Iowa, is calling for the United States and other industrial nations to forgive up to half the official debt of Eastern European countries. *Page 6*

OTHER NEWS

MONEY-CENTER banks should be subject to "extraordinary audit requirements," including the oversight of independent auditors appointed by federal regulators, the General Accounting Office said. *Page 2*

THE TOTAL COST of the thrift rescue could reach $500 billion, a congressional agency stated. *Page 2*

COMMENT

THE S&L BAILOUT is a sad waste of public resources, writes Paul S. Nadler. *Page 4*

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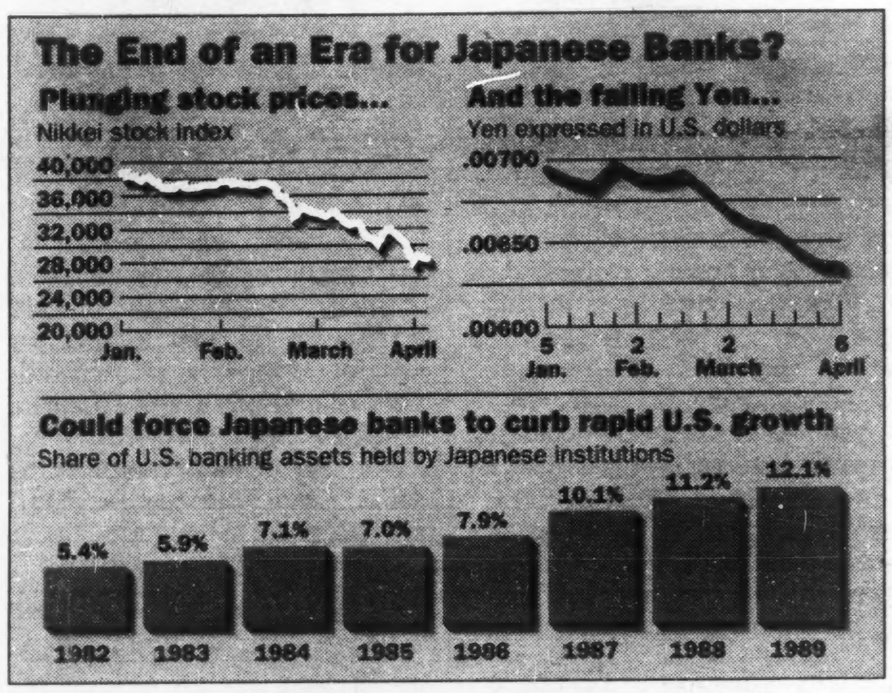

Japanese Banks May Be Forced To Cut Back on Foreign Lending

By JOHN EVANS and JAMES R. KRAUS

The dramatic plunge in Tokyo stock prices could force major Japanese banks to curb their rapid growth in the United States and other foreign markets, leading Japanese bankers said Friday.

"Almost all of Japan's banks will have to cut asset growth for the next few years," said Tokio Inoue, director and general manager of Dai-Ichi Kangyo Bank Ltd., the world's largest bank with about $400 billion in assets.

At Industrial Bank of Japan Ltd., Japan's sixth-largest bank, deputy president Yoh Kurosawa was less pessimistic, but he acknowledged that "fast growth by the Japanese banks won't be possible" for the immediate future.

Credit Crunch Possible

Analysts predicted that any contraction in Japanese lending would tighten credit worldwide and could push rising interest rates still higher.

"An awful lot of places, in-

See page **10**

Bank Stocks Skid Again On Anxiety Over Loans

By GORDON MATTHEWS

NEW YORK — Prices of most major bank stocks fell sharply again Friday over heightened concerns about the quality of commercial loan portfolios.

Shares began falling Thursday after the previous day's meeting with officials of the Office of the Comptroller of the Currency that left securities analysts expecting further writeoffs of commercial loans nationwide.

Hammering those fears home, PNC Financial Corp., the Pittsburgh superregional banking company, said Friday morning that its first-quarter earnings would be up to 40% lower because of a provision for possible losses on real estate loans. For the day, the shares were off $3.875, to $34, a loss of 10.2% in value.

Selloff Of Blue Chips

The selloff extended Friday to some of the most conservative and well-regarded banking com-

See **SHARES** *back page*

Hungry Lenders Line Up to Back New UAL Offer

By WILLIAM GOODWIN

Bankers are eager to finance the $4.4 billion union buyout of UAL Corp., which the company's board of directors tentatively accepted Friday.

The unions are expected to ask banks for more than $3 billion in loans, making this the largest deal to come on the market since a previous bid for the parent of United Airlines collapsed last autumn, shaking the leveraged loan business.

"We'd love to see an opportunity develop from all this," said an official in the acquisition-finance department of one money-center bank.

"We certainly have a keen interest" in the deal, another banker said.

But despite their eagerness to see some activity in a moribund market, some bankers also said that revised terms in the new UAL pact could make bank financing more complicated and potentially riskier.

"Is it still an acceptable credit? No one knows that yet," said the head of structured finance at an-

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Jeffrey Wong

Gonzalez Targets S&L Fraud

By STEVE KLINKERMAN

DALLAS — Henry D. Gonzalez brings his House Banking Committee to Dallas this week to find out why executives who looted millions from Texas thrifts are not behind bars.

He is not going to like what he hears.

Federal prosecutors say it will take them years to bring all of the suspects to trial. They will tell the committee tales of long and tedious investigations, cunning criminals, underfunding, and heavy staff turnover.

Meanwhile, a parade of regulators and other experts are scheduled to testify that prosecutors for years have had plenty of evidence to convict the guilty.

The panel's oversight hearings, scheduled for Wednesday and Thursday, come amid growing sentiment in Congress to increase appropriations for enforcement actions against financial criminals.

After engineering a $159 billion bailout of the thrift industry, Mr. Gonzalez and his colleagues say they are intent on seeing defrauders of thrifts punished. The panel is holding the

See **HOUSE** *page* **9**

COMMENT/ *By Paul Nadler*

Spending to Bail Out S&Ls Is a Sad Waste of Resources

The savings and loan bailout is expected to cost taxpayers $200 billion to $300 billion. But people keep asking: "Where did the money go? It didn't just disappear, did it?"

Sure, a lot of money was spent by the small group of unscrupulous thrift operators who milked the institutions for their own lifestyles. It paid for luxury cars and boats, private planes, mansions, and the like. No wonder these sectors of the economy did so well in the 1980s.

Erected Buildings

Other money went into new thrift buildings. If any industry ever had an "edifice complex," it was the savings and loans. Some communities have so many giant thrift buildings that one wonders how they find enough employees to fill them, much less enough customers to justify their existence.

Just as important is the housing that the thrifts financed. That money went to builders, contractors, lumber dealers, sellers of land, and suppliers of pipe, wire, plaster, and other products. These workers subsequently spent their income, injecting money into other fields.

In other words, the money was spent and spread around.

Many people became prosperous because their livelihood was tied to home construction, and all through the 1980s home construction was America's "fair-haired boy."

Real Buying Power

One might conclude, then, that the $200 billion to $300 billion that thrifts absorbed was not all lost. It helped the nation prosper, provided jobs, and generated buying power as the home builders and workers spent their income.

But such a benign interpretation ignores the truth. This expenditure should have been directed elsewhere based on economic standards. The projects that were financed with the thrift deposits should not be paid for by a taxpayer bailout.

What Good is the Final Product?

It is like military spending. When we make a bomb, the money does not disappear. It goes to pay the people who built the bomb and those who supplied the material.

'Those who say we need military spending to keep our economy moving do not recognize what the money could otherwise do.'

But what about the final impact? The bomb is either stored or, far worse, used to destroy structures. The same expenditure on other goods would have given us the equivalent boost in employment, but the end product would have been useful rather than destructive.

Those who say we need military spending to keep our economy moving do not recognize opportunity cost – what the money could otherwise do.

Back to the thrift situation. We now have homes that cannot be sold and that depress the market for those trying to sell existing homes. And the taxpayers will pick up the tab.

While we are spending billions on unneeded housing, we have to cut back in other areas with strong needs because of the lack of funds.

One cannot help but think back to the early New Deal. People were starving, but we plowed under fields and killed little pigs in the hope that reducing food supplies would end the Depression and the hunger.

Look at the problems the Communist nations are having in switching from government allocation of resources to marketplace allocation. Just as thousands of bureaucrats there put expenditures in the wrong place, the United States supported house construction in good years and bad, misallocating a vast portion of America's economic resources.

The money did not disappear. And people who put up the houses, hotels, and shopping centers financed by the thrifts undoubtedly feel they were paid for honest work.

But when we see so much of our wealth directed to paying for unneeded construction and when we think of what the money could have done to improve quality of life in other areas, we cannot help but remember: "The saddest words of tongue and pen are only these 'It might have been.' " □

Mr. Nadler is professor of finance at Rutgers University's Graduate School of Management.

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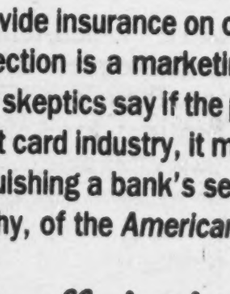
"SOUND OFF"

A number of banks and thrifts recently began offering checking accounts that provide insurance on customer purchases. Some observers say buyer protection is a marketing tactic that can help banks attract customers. But skeptics say if the product becomes commonplace, as it has in the credit card industry, it may fail to accomplish the original purpose of distinguishing a bank's services from those of competitors. Joseph L. McCarthy, of the *American Banker* features staff, asked:

Q Does offering insurance on purchases made by check give a bank a competitive edge?

■ David J. Totaro
First senior vice president
Dime Savings Bank, New York

I think buyer protection gives banks that offer it a competitive advantage. Dime just started to offer the product [April 2], and we opened four times as many preferred accounts than on an average day in January or February.



Offering the product should translate into a bottom-line gain, but I don't think we can estimate the dollar value on that at this time. The profitability depends on a number of variables, including where a bank buys its protection insurance and the costs of administering the program.

Providing buyer-protection puts pressure on other banks to offer similar products. If everyone offers it, any advantage will be canceled out, but those banks that don't offer it will be at a disadvantage. It's like when auto manufacturers first began making cars with air conditioning. Some buyers wouldn't even consider getting a car from someone who didn't offer the feature.

■ David T. Fronek
Executive vice president
Indianapolis National Bank

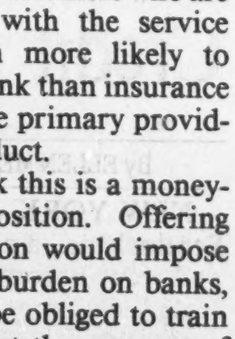
I'm not sure if offering buyer protection on check purchases will give banks an advantage. If everyone begins offering it, there's not much of a way to differentiate your product from anyone else's. Banks spend enough money advertising checking accounts that are fundamentally the same. How much time and money are we going to spend doing that for this product?

We're also concerned that buyer protection is being represented to the public as more than it really is. Often, customers must use other kinds of insurance, such as homeowner's, before they're even eligible to fall back on buyer-protection benefits. And customers who are disenchanted with the service will be much more likely to blame their bank than insurance companies, the primary providers of the product.

I don't think this is a money-making proposition. Offering buyer protection would impose an additional burden on banks, which would be obliged to train personnel about the nuances of any new program. Insurance companies – not banks – are the ones that stand to get rich from this product.

■ J. Douglas Adamson
Executive vice president
Bank Marketing Association

The real key is going to be how well banks communicate the nuances of buyer protection to their customers. This is a new service, it's different, and consumers are going to have lots of questions about it. Front-line bank employees often have a difficult time explaining bank products and services. There's a danger here that banks will try to crank out this product before they're adequately prepared to explain it.



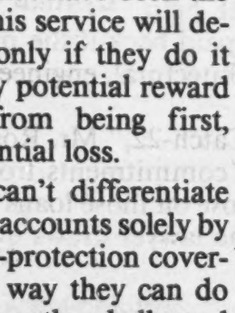
I don't expect a stampede of banks to offer buyer protection on check purchases. This is something I think most banks will be extremely cautious about. Of course, the markets where the product already has been introduced are hot, competitive markets. Everyone's looking for a quick and easy way to make their products look different. So I think we'll at least see some responses soon.

The banks that have been the first to offer this service will derive benefits only if they do it well. For every potential reward that comes from being first, there is a potential loss.

But banks can't differentiate their checking accounts solely by offering buyer-protection coverage. The only way they can do that is to offer other bells and whistles to checking customers, including travel benefits, personal accident insurance and accidental-death insurance.

■ Robert Gorsuch
President
Park Bank, Madison, Wis.

I think the jury is out on whether this is something the public really wants. Here in our area, no banks have as yet chosen to offer the service. So I guess we're in a wait-and-see mode.



If everyone begins offering the service, it seems that any benefit to banks would be negated. In that case, the product would mean added costs, which ultimately would be absorbed by individual banks or passed on to consumers.

If it were marketed properly, the product might be useful. Also, as awareness of the service grows, more people might request it or shop for banks that offer it. But I'm somewhat skeptical. Among our customers, no one has yet found this to be enough of a concern to even inquire whether or not the service is available. □

GLOBAL *dispatches...*

Citicorp's Reed Urges Japan To Help Brazil with Reform

By STEVEN BRULL
Reuters

TOKYO — Citicorp, which leads Brazil's group of creditor banks, is seeking Japanese support for Brasilia's plan for economic reform.

Citicorp chairman John Reed said Friday that Japanese banks, which hold 20% to 25% of Brazil's debt of about $115 billion, could help develop a package that would spur investment in the country.

"The principal objective is to engender confidence by trying to maintain relations," Mr. Reed said. "The new program is technically fine but needs marketplace acceptance."

Economists view the public-sector deficit as being largely responsible for the country's spiraling inflation rate, a record 84.32% last month. Brazilian President Fernando Collor de Mello aims to slash the public-sector deficit 10% this year through administrative reform, increased tax collections, and privatization of state companies.

Legislators in Brazil said last week the reform program had won early support and probably would be passed in congressional voting over the weekend.

Mr. Reed said the Brazilian Bank Advisory Committee could hold talks in May and an agreement could be reached by late summer.

Brazil began suspending interest payments on some loans in July, although the country has continued to pay interest on its short-term credit lines, which are vital for financing exports and imports.

Arrears on loans to Argentina and Brazil are costing Citicorp $300 million a year, but the bank is optimistic the debt servicing problem of lesser-developed countries will be "normalized" in the next two to three years, Mr. Reed told Japanese businessmen.

... by country

LUXEMBOURG

Bank of Credit and Commerce International said it has appealed to the Florida comptroller to renew its license in the state.

The license expired on March 14, and Florida Comptroller Gerald Lewis ruled last month that it would not be renewed because of the bank's involvement in money laundering.

The bank said its lawyers intended to prove that the decision to deny the renewal was "arbitrary, capricious, and an abuse of discretion."

On Feb. 5, the bank was ordered to forfeit $15 million after pleading guilty of laundering drug money. The fine was the largest ever imposed on a bank in the United States.

The Luxembourg bank plans to continue operating its Miami branch until a ruling is made on the appeal.

The bank is owned by a Middle Eastern consortium and has assets of about $20 billion.

— Reuters

ECUADOR

Ecuador's creditor banks have agreed to include $1.185 billion in overdue interest in their negotiations of the nation's bank debt, said Abelardo Pachano, chief debt negotiator.

"Ecuador doesn't have the $1.185 billion in arrears," he told reporters. The country is aiming to reschedule $5.646 billion in bank debt.

Late last month, banks in the negotiation process agreed not to demand payment on the interest but to include it in the accord, Mr. Pachano said. The interest fell due between January 1987 and December 1989.

While the banks' counter-offer "is very positive, it has limits and conditions that we have to study," Mr. Pachano said.

In a recent statement, Ecuador President Rodrigo Borja said negotiations to reduce foreign debt have been prolonged because banks have imposed "unacceptable conditions" on the Andean nation.

Mr. Pachano said U.S. support has strengthened Ecuador's negotiating position. He cited a recent statement by Treasury Under Secretary David Mulford that Ecuador was among a group of countries on the verge of signing debt agreements based on the Brady plan.

— Reuters

WEST GERMANY

The slow liberalization of West Germany's banking system, as encouraged by the European Community, will preserve the banks' credit quality over the medium term, **Moody's Investor Service** Inc. said in a special report.

The slow pace of change will help preserve German banks' high credit quality by giving management more time to adjust to the more challenging environment after 1992, the report said.

— Reuters

ITALY

The Agnelli holding company of Italy said it would get a $290.4 million capital increase and Citicorp would take a 2% stake in the company.

Angelli, a unit of Instituto Finaziario Industriale SpA, said it would raise the capital by issuing five new shares for every 25 shares in each category.

Citicorp will pay about $24 million for the stake and will gain the right to name a board member.

— Reuters

Japanese May Cut Foreign Loans

Drop in Tokyo Stocks Could Lead to a Credit Crunch

Continued from *page* **1**

cluding Eastern Europe and Latin America, are chasing after Japanese capital. If you tear a hole out of their capital structure, the obvious direction this will take is a contraction in bank lending, especially to small and medium-size companies where banks here have already become cautious," said Paul Sacks, president of Multinational Strategies Inc. a New York-based consulting company.

He added that any contraction in Japanese bank finance would also limit investments here by Japanese insurance, real estate, and manufacturing companies. It would also restrict the Bush administration's efforts to stimulate economic growth by keeping interest rates down.

Portfolios Devalued

The Tokyo stock market downturn has already cut heavily into the value of shares that Japanese banks hold and count toward their capital. This, in turn, means that they will have a harder time meeting new international capital guidelines set by the Bank for International Settlements. It also means they have less capital available to expand lending in the future.

The Nikkei stock market index rose 3.6% Friday to 29,279. Despite the rise, traders said the wave of selling could resume if the index goes back down below 29,000. The Nikkei has fallen nearly 25% since its high of 38,713 on Jan. 4.

Bond prices have also fallen with rising interest rates. Accounting procedures generally require Japanese banks to write down unrealized losses in bonds, and announcements of such writedowns could be forthcoming soon as the banks' fiscal year has just ended.

Other Major Worries

But Japanese bankers and analysts say they are equally worried about other things. If Japan's sky-high real estate prices start to fall, this could trigger a chain of loan defaults and sharply raise the level of nonperforming assets. Rising interest rates are ending an era of cheap funding, forcing Japanese banks to seek higher returns on their assets.

And the fall in the yen against the dollar is raising the value of their dollar-denominated assets and increasing the need for still more capital.

Yoh Kurosawa
Industrial Bank of Japan

"We thought there would be a lot of money to expand our business. It suddenly seems this isn't the case so it means that any expansion will be more difficult and we will have to be more selective in deciding which lines of business we want to expand in," said a senior Japanese banker in New York who asked that he not be identified.

Big Stake in U.S. Market

Japanese banks have expanded rapidly in the United States during the past few years. According to an *American Banker* survey, they held $372.5 billion worth of assets as of mid-1989, or 12.1% of total U.S. banking assets. The figures do not include lending to U.S. companies via offshore offices and interbank lending out of Tokyo.

No Japanese banker is yet prepared to predict the degree to which the banks may restrain their growth.

But analysts suggest one clue comes from the latest request by the Bank of Japan, the nation's central bank. It has asked the banks to reduce to 7% from 9% their domestic lending expansion, particularly in areas like real estate, in order not to spark inflationary forces in the Japanese economy.

That is a measure of restraint that could ultimately become the target for overseas lending, analysts suggest.

Faced with this lower growth, the Japanese banks "will have to increase the overall yield on their loans and other businesses. They will have to try a lot harder and make their assets sweat," said Stuart Matthews, analyst at Barclays de Zoete Wedd Securities (Japan) Ltd.

"The [Tokyo] banks will become much more choosy over their lending, and will become more risk averse. This will no doubt annoy even more of the big U.S. banks, which are similarly trying to improve the quality of their earning assets and meet [capital requirements]," he said.

In the United States, major Japanese banks have achieved rapid growth in recent years and now account for 12.1% of the country's banking assets. Part of this growth has been driven by the Japanese involvement in major leveraged buyouts, an activity from which they are expected to retreat.

Analysts said Japanese banks will likely remain a major competitive force in the United States but will grow at a much slower clip than the past.

"The Japanese won't want to restrain too much their lending to corporate America. They've made a huge investment in the middle market and retail market over the years in order to build up their presence. But they will probably fight shy of low margin business," said Simon Smithson, banking analyst at Kleinwort Benson International in Tokyo. □

'If you tear a hole out of their capital structure, the obvious direction this will take is a contraction in bank lending, especially to small and medium-size companies where banks here have already become cautious.'

Paul Sacks
Multinational Strategies

Key International Rates*

	Day-to-day money			3-mo. interbank			6-mo. interbank			Discount rate			Prime equivalent		
	4/06	4/05	3/30	4/06	4/05	3/30	4/06	4/05	3/30	4/06	4/05	3/30	4/06	4/05	3/30
United States	8.31	8.37	8.31	8.50	8.50	8.50	8.56	8.68	8.75	7.00	7.00	7.00	10.00	10.00	10.00
Japan	7.06	7.06	7.31	7.40	7.40	7.43	7.50	7.56	7.62	5.25	5.25	5.25	6.25	6.25	6.25
Canada	13.12	13.12	13.06	13.50	13.50	13.37	13.75	13.62	13.67	13.51	13.51	13.51	14.25	14.25	14.25
U.K.	14.87	14.90	14.93	15.25	15.43	15.31	15.43	15.56	15.00	14.55	N/A	14.45	15.00	15.00	15.00
West Germany	8.00	7.93	7.81	8.18	8.25	8.12	8.62	8.56	8.50	6.00	6.00	6.00	10.50	10.50	10.50
Switzerland	9.25	9.50	9.00	9.25	9.18	9.00	9.18	9.18	9.00	6.00	6.00	6.00	11.25	11.25	10.50
France	10.00	10.00	10.12	10.12	10.06	10.31	10.18	10.12	10.37	9.50	9.50	9.50	10.80	10.80	11.00
Italy	11.75	11.50	12.06	12.00	12.00	12.25	12.37	12.37	12.75	13.50	13.50	13.50	14.00	14.00	14.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	8.56	15.18	8.78	8.96	7.59
6 to 12 months	8.83	14.77	9.15	8.87	7.63
12 to 24 months	9.37	13.95	8.20	8.32	7.44

* Midday quotes in the New York market

Source: Noonan, Astley & Pearce Inc., New York.

NOTE

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